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Tax & Business letter

SUMMER
2024

MIDYEAR TAX PLANNING ideas for your business

Prepare to receive Form 1099-Ks. Your business will receive a Form 1099-K from each credit card company and third-party payment processor from whom you receive \$5,000 or more in payments in 2024. This may add some complexity to next year's tax return, so start planning now to identify if this filing applies to you.



Establish or review your retirement plan. Have you looked into setting up a SEP IRA, SIMPLE IRA, or solo 401(k)? Examining your choices now gives you time to select the best plan and get the

paperwork completed. If you already have a plan, consider a review of the plan to ensure it is performing well and is still relevant for your company. Then you'll be set to make contributions as your cash flow allows — and to take the deduction on your 2024 tax return.

Hire your child. If your child is younger than 18 years old and works for your unincorporated business, there are no Social Security or Medicare taxes on your child's pay. Wages paid to your child are also deductible. Keep in mind that the compensation needs to be reasonable for the work actually performed.



Deduct equipment purchases. Depending on your situation, you may be able to shift some of your tax burden into future years if you purchase business equipment before the end of the year. You can expense (versus depreciate) up to \$1.22 million worth of purchases of qualified equipment in 2024.

Track your business driving. You may be able to deduct mileage expenses for driving related to your business. For 2024, the rate for business related mileage is 67.0 cents per mile. You can deduct actual costs for parking fees and tolls in addition to mileage. Keep contemporaneous records to substantiate your deduction.

Check your employee benefits. Now is a good time to review your basket of employee benefits. This is especially important as the cost of these benefits is rapidly increasing. There are many options available to help control the costs and assist employees to pay these often very high bills.

Look into tax-advantaged plans such as health savings accounts, flexible spending accounts, and health reimbursement arrangements. Also consider pricing out alternative vendors. If summer is a busy season for your business, the timing of this review may be shifted. The point is to ensure an annual review of benefits is done given the hyperinflation facing benefit costs. ♦





IRSTAX NOTES

IRS warns business owners to take data security precautions

The IRS urges business owners to put in place data security safeguards to protect their financial, personal and employee information from scams and cybercriminals hunting for easy targets.

The agency says it continues to see instances where small businesses are encountering a variety of financial and identity theft related schemes that try to obtain information that can be used to file fake small business tax returns, rob business bank accounts, and create stolen identities.

Cybercriminals are constantly looking for weaknesses to exploit. By implementing basic cybersecurity measures and training employees, small business owners can significantly reduce their risk of a costly attack.

Interest rates remain the same for the second quarter of 2024

Interest rates for the second quarter in 2024 remain unchanged compared to last quarter. These rates include: 8% for overpayments (7% for corporations); 5.5% for the portion of a corporate overpayment over \$10,000; 8% for underpayments and 10% for large corporation underpayments. ♦

Tax CALENDAR



June 17th

- Second installment of 2024 individual estimated tax is due.

September 16th

- Third installment of 2024 individual estimated tax is due.

Cyber security starts with your employees

When identity thieves trick employees, businesses pay a steep price.

Being hacked is a real problem. Workers spend months cleaning up the mess. You face potential penalties, fines, and lawsuits. Customers and business partners lose confidence in your company's ability to manage data. Your brand and reputation take a hit, creating a perfect storm for competitors to take full advantage of the problem.

One way to lower your cyber security risk is the introduction of an employee training program to be vigilant about the following identity theft schemes.

- ▶ **Phishing emails.** Consider this example: An employee receives an email or text message purporting to come from company management or a trusted vendor. He or she is duped into opening the message and clicking on a malicious link. When the victim lands on a bogus page requesting both new and existing passwords, the attacker hijacks the original password to gain access to the network.

Action items: Beat this problem by training employees to recognize phishing schemes. Look for subtle mistakes such as spelling errors or domain name anomalies. Teach employees to hover their mouse over links to ensure they are legitimate. Above all, staff should routinely ask, "Why am I receiving this email?" A simple verification may be all that's needed to stop a phishing attempt. Not sure if you could be a victim? Consider hiring a reputable firm to test your security in this area. You might be surprised at what you find.

- ▶ **Ransomware.** Ransomware is malicious software that infects a computer, locks it and then demands a ransom. In effect, the system's critical data is held hostage until fees are paid. Like phishing, ransomware relies on victims to download software.

Action items: Train employees to confirm that senders are, in fact,

trusted contacts. Teach them to avoid clicking on links from questionable sources. They should be particularly skeptical if an attachment asks them to enable macros, which is a common way ransomware is spread. Your best defense to ransomware is active, secure backups of all systems.

- ▶ **Social media postings.** Cyber crooks use social media to gather enough information to appear legitimate to company employees. After all, if a worker receives an email from a well-known vendor who asks about his recent trip, the message must be legitimate.

Action items: Train employees to protect both themselves (and your business) when connecting or sharing on social media. Create a policy that limits social media use during the work day and prohibits access to personal accounts using company computers or networks.

- ▶ **Internet access.** Workers who access company networks from coffee shops, airports, or other unsecured access points may allow identity thieves to exploit vulnerabilities.

Action items: Limit personal access to your company wifi. Explore creating a separate access for employees to use during the day. Develop VPN protocols for remote workers, as this limits access to your network. Require strong password, encryption, time-out locking and theft protocols within written policies. Prohibit access to your network using public wifi. Hire or create an accountable person to constantly monitor company security.

Security is now a complex but critical success factor for all small businesses. Take it seriously by developing a security plan, including disaster recovery and hiring experts to constantly train your employees to be vigilant. ♦



3 questions to ask before expanding your business

Your business is profitable, and the demand is strong for your services. The future looks bright. As you create your business plan, expansion should readily be considered in your future. As you navigate the right path for your business, here are three questions to consider.

1 How will you finance the expansion?

If additional financing is required, think about your comfort level with taking on debt or giving up part of your equity. Balance emotional aspects with the realization that prudent borrowing can benefit your business by providing liquidity to grow your income. Likewise, investors who supply cash in return for a stake in your business may also be a source of sound advice and managerial guidance.

Tip: Remember, your finance options can vary greatly as you can obtain the funds you need through either operations, traditional banks, equity partners, or private loans. The options vary tremendously, but access to these options will often depend on the work you've done to make your financials look attractive to these money sources.

2 Will you need additional staff?

Payroll can be expensive and paperwork intensive. But sales, marketing, business development, operations, and administrative tasks will expand along with your company. Make a realistic judgment of how much of the increased workload you'll be able to handle yourself. Remember that the right personnel can boost sales and add

to the bottom line. Alternatively, hiring temporary or part-time employees and independent contractors can keep you from becoming overwhelmed while holding costs in check.

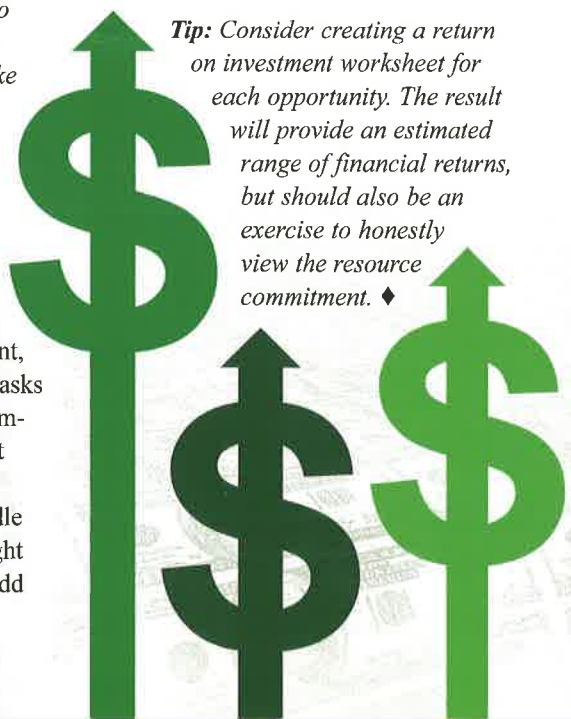
Tip: Cultivating business contacts and joining industry associations are inexpensive ways to tap expertise. Outsourcing functions such as website maintenance or marketing can also give you access to professional skills.

3 Will the benefits outweigh the costs?

Financial projections can help you determine whether sales and profits will make the expansion worthwhile. But also take into account why you started your business and what customers expect from you.

Providing personalized service may prove difficult as your business grows, making customers unhappy. Yet choosing to remain static exposes you to the risk of competition from larger companies or losing customers as their needs outgrow your capabilities.

Tip: Consider creating a return on investment worksheet for each opportunity. The result will provide an estimated range of financial returns, but should also be an exercise to honestly view the resource commitment. ♦



CASHFLOW CORNER

Boost your short-term cash flow without debt

If your business is currently experiencing a cash crunch, here are some ideas to boost your short-term cash flow without credit cards or other debt.

Solving your immediate cash flow crunch

● **Be aggressive to collect receivable payments.** You can't pay your vendors if your customers don't pay you. Look at your receivables aging report to identify customers who have an outstanding balance. Focus on getting payments from these customers, or set up a payment plan. If a customer begins to have a history of paying late, ensure you are being paid for being their bank with adjusted pricing, interest, and late fees.

● **Review accounts payable procedures.** Review your accounts payable procedures with your team, making sure that bills aren't getting paid early without prior approval. Discuss whether it makes sense to take the offered discount or not. If you have to pay slow, be very strategic about who it is and how you communicate with them.

● **Adjust your payments with vendors.** Proactively work with your vendors to see if there's any wiggle room to adjust your payment schedule. Be willing to pay a little bit for this flexibility, but remember that the extra cost you incur to adjust when you can pay is likely cheaper than borrowing money. For example, negotiate ahead of time to pay your bill in 60 or 90 days, understanding you may have to pay a little interest for the flexibility.

● **Convert noncash items into cash.** Consider whether you have assets on your balance sheet that you can turn into cash, such as slightly-aged inventory that could be sold, or providing discounts to encourage customers to stock up on items. Go through your entire balance sheet to identify assets that fit this criteria.

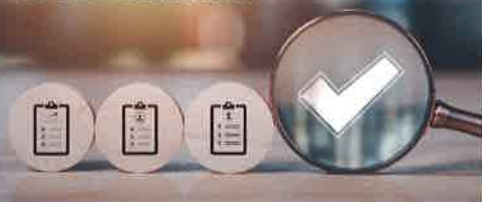
Planning ahead

Once you get through your current cash flow crunch, try to identify what contributed to your cash shortfall in the first place, and put a plan in place going forward. A cash forecast such as a 12-month rolling forecast is one great way to identify your needs over the next year before you actually need the cash.

Please call to get your 12-month cash forecast started or if you have any other questions about boosting your business's cash flow. ♦

ADDRESS SERVICE REQUESTED

Do's and Don'ts of small business IRS audits



The best way to deal with an IRS audit of your small business is to know what to do and not to do. Consider the following:

■ Be professional

Do: Auditors have a job to do, and it's in your best interest to show them respect. If you're called to their office, show up on time, dress appropriately and have requested documents in hand. If auditors visit your place of business, encourage staff to answer questions honestly and completely. Within reason, it's acceptable to ask for more time to

locate a particular record. If you can't find supporting documentation, say so.

Don't: Argue with the auditor. Ask for clarification if needed, but don't question every document request. If you disagree with the auditor, state your case and understand you have appeal rights should the disagreement become costly.

■ Be organized

Do: If you keep business records on a computer, know how to create and print easy-to-follow reports. Prepare for the audit by laying out checks, invoices, and other records in a logical fashion.

Don't: Dump a box of receipts into an auditor's lap. The easier it is for an auditor to find what they need, the shorter the time period required to complete the audit. Remember, the longer an auditor spends with your records, the more likely he or she will find something amiss. Also keep in mind that it's rarely a good idea to create records during an audit. Exceptions may be if you're honestly trying to reconstruct transactions from memory or your

records don't exist (for example, after a natural disaster or a fire).

■ Be honest

Do: Make a straightforward effort to justify deductions. If you can't locate a specific record, look for alternative ways to support your records. For example, if you're claiming a deduction for depreciation but can't locate the paperwork, redo the calculation for the auditor. A vendor, landlord or mortgage company may have copies of pertinent records if yours have gone missing.

Don't: Never create numbers that can't be corroborated or reasonably explained.

■ Ask for help

Do: Get an expert in your corner if you're facing an audit.

Don't: Ignore your need for help. Remember, auditors conduct audits all the time, while this is a rare event for you. Too many businesses provide more information than is needed, opening themselves up to a higher tax bill. Make sure this isn't you! ♦

NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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